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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 001496

SIPDIS

NEA FOR FRONT OFFICE AND IPA, NSC FOR SHAPIRO/KUMAR,  
TREASURY FOR DGLASER/DMOGER, USAID FOR BORODIN

E.O. 12958: DECL: 08/21/2019

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SUBJECT: PALESTINE MONETARY AUTHORITY AIMS FOR "GOOD NEWS"  
IN GAZA

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Classified By: Deputy Principal Officer Greg Marchese, for reasons 1.4b  
and d.

¶1. (C) Summary: The Palestine Monetary Authority (PMA), in consultation with a number of Israeli counterpart agencies, is working to re-start Israeli social security payments to 750 disabled workers in Gaza. Recipients have been unable to cash their disability checks since Israeli banks ceased working with Gaza branches of Palestinian banks in early ¶2009. PMA officials remain concerned about the complexity of the negotiated mechanism, but are determined to proceed, especially as the Hamas-controlled press in Gaza has increased criticism of the PMA. PMA contacts also report the forced liquidation of Al Aqsa Islamic Bank (AAIB) will likely be delayed by several months. End summary.

PMA and GOI MOI Aim to Restart  
Israeli Social Security Payments in Gaza

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¶2. (C) The PMA, in consultation with the PA Ministry of Civil Affairs, the GOI Ministry of Interior, and the Israeli National Insurance Institute, appears close to finalizing an arrangement to re-start Israeli social security payments to 750 disabled workers in Gaza, according to Bank Supervision Director Riyad Abu Shahadeh. The negotiated mechanism will require recipients to open dedicated accounts with the Bank of Palestine. Customer due diligence will be conducted in Gaza, under the supervision of a PMA inspector, but the accounts will be officially opened in Ramallah. The PMA will be required to provide the account-opening information to the GOI Ministry of Interior. Abu Shahadeh noted that this information is protected under bank secrecy law, and that the PMA is conducting a review of the legality of releasing it.

¶3. (C) The mechanism will also require PA consent to the deduction of any social security payments made in error from PA clearance revenues. (Note: The GOI has reportedly said it will not vet the recipients in advance.) The PMA has drafted a letter from PM Fayyad to the GOI Ministry of Finance permitting this deduction and hopes to discuss the letter with the PM sometime this week, according to Abu Shahadeh. (Note: Hussein al Sheikh, head of the liaison office for the PA Ministry of Civil Affairs, who has been heavily involved in these negotiations, tendered his resignation on August 23 after his election to the Fatah Central Committee)

¶4. (C) Abu Shahadeh said that, pending the final legal review, the mechanism appears workable. He said it was important for the PMA to have a "good news story" in Gaza,

and noted that he announced on a Gaza-based radio station that social security payments would be reinstated in the next few weeks.

"Oh PMA, Stop the Terror"

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¶ 15. (C) Abu Shahadeh also shared a recent opinion piece from the Hamas-controlled daily *Felesteen*, which called for the PMA to "stop the terror." The article enumerated steps that the PMA has taken "against" banks in Gaza, including: directing banks to move their headquarters to Ramallah; threatening to close the banking system in Gaza if Hamas intervened; and freezing the accounts of a charitable society in Gaza that was taken over by Hamas.

¶ 16. (C) The article also rebuked the PMA for its failure to secure Israeli permission to transport U.S. dollars or Jordanian dinar into Gaza. As of August 18, there were only 2.8m JD and 9.2m USD in Gaza vaults, according to the PMA, meaning that Gazans have been forced to withdraw USD- or JD-denominated deposits and Qsalaries in shekels. Abu Shahadeh said that, in addition to the recent press, the three-point spread between the official and unofficial NIS/USD exchange rates was "instigating the people of Gaza against the banks." He had advised banks to offer a better rate on shekels even though it would result in losses.

Al Aqsa Islamic Bank

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¶ 17. (C) AAIB filed a second case against the PMA on August 17, alleging that the provisions the PMA had instituted against AAIB to protect against a run on the bank were unfair, according to Abu Shahadeh. A hearing had been scheduled for the first case (which alleged that liquidation was against

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the Palestinian public interest) on August 19, but the two cases will likely be merged going forward. Abu Shahadeh speculated that it could take months to resolve the legal disputes and clear the way for final liquidation of the bank.

He said the remaining opposition to liquidation came from the largest AAIB shareholder, mortgage and leasing company Al Aqaria, which expected the PMA to "cow to political pressure." However, PM Fayyad firmly supports resolving the issue in the courts, according to Abu Shahadeh.

WALLES